RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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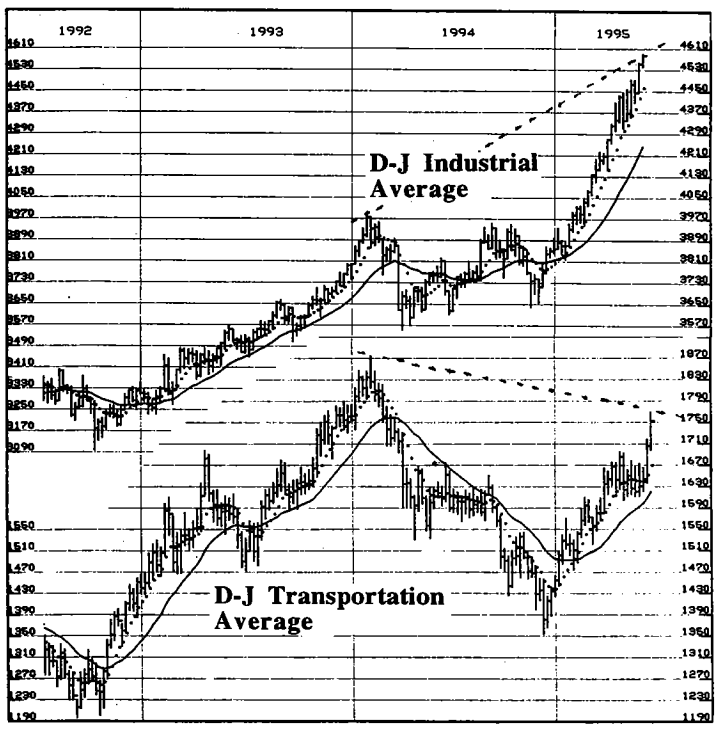
THE PICTURE: This has to be one of the most fascinating periods I've ever lived through in the stock market. Complacency, or I should say confidence, regarding stocks remains incredibly high. If the Dow dips two days in a row, it's taken as a golden opportunity to buy more stocks. Warnings of overvaluation are dismissed as old fashioned. Investors (I guess you can call them that) continue to pour billions of dollars into mutual funds. A widely-circulated forecast holds that the Dow could earn $400 next year, and if capitalized at 15 times earnings, the Dow could rise to 6000 in '96. The June 16 *Barron's* included an article implying that bull and bear markets are (yawn) ancient history. As I said, it's a fascinating picture. And all the while the Dow has been masquerading as a sky-rocket.

To psychoanalyze the stock market, to understand exactly what it's thinking, is never easy (let's face it, it's impossible). But what the heck, let's give it a try. To start with -- in the face of a parade of negative economic statistics, the stock market has appeared (so far) to be unfazed.

What could the market be thinking about? Why has the Dow been this strong? The market, in looking ahead, sees only an economic "pause that refreshes" rather than a nasty recession. Furthermore, the market envisions declining interest rates and continuing fat corporate profits. With an election coming up and with Fed Chairman Greenspan up for re-appointment, the market sees the Fed keeping the money spigots open between now and the end of 1996.

Personally, I think the chances of a recession are around 50/50. I base this on the parade of statistics that are emerging, particularly the decline in the leading indicators. But there's another problem which I have noted before, and which the latest issue of the



June 23 DJIA 4585.84; PTI 4173; A-D Ratio -5.20
June 29 DJIA 4550.56; PTI 4166; A-D Ratio -5.50
Dow Yield: 2.43%; Dow Price/Earnings: 15.6
Dow 200-day MA: 4039; Dow 30-day MA: 4474
Dow Times Book Value: 4.03; PTI 89-day MA: 4092
Percentage of Undervalued Blue-chips: 6%
Gold 200-day MA: 385.14; Gold-PTI: 703

Economist addresses: "*This preoccupation with America's economy risks missing an important fact. There is a much bigger threat to global stability, and even to American incomes, than flagging demand in the United States. The real danger is Japan . . . Japan is big enough to matter to everybody. It is in far worse trouble than the US. It s sickness is structural rather than cyclical (which makes it more difficult to treat). And to a small but significant extent, out of recklessness or ignorance, American policy is adding to the risk that its economy will crash.*"

I've been pointing to the almost unprecedented picture of the stock market of the world's largest economy (the US) pushing skyward, while the stock market of the world's second largest economy (Japan) is caught in the throes of a vicious bear market. Frankly, I've never seen anything like this disparity before. In the "old days," it was the British and the US markets that were linked together. The formula was that at a bull market peak the British market topped out first -- and the US market followed. At a bear market bottom the US market turned up first followed by London. Yet, here we have the Nikkei, having lost 65% of its peak value, bumping around its lows, while the US market hits successive all-time highs. Can this division continue? Can the miracle go on? We should know before the end of the year.

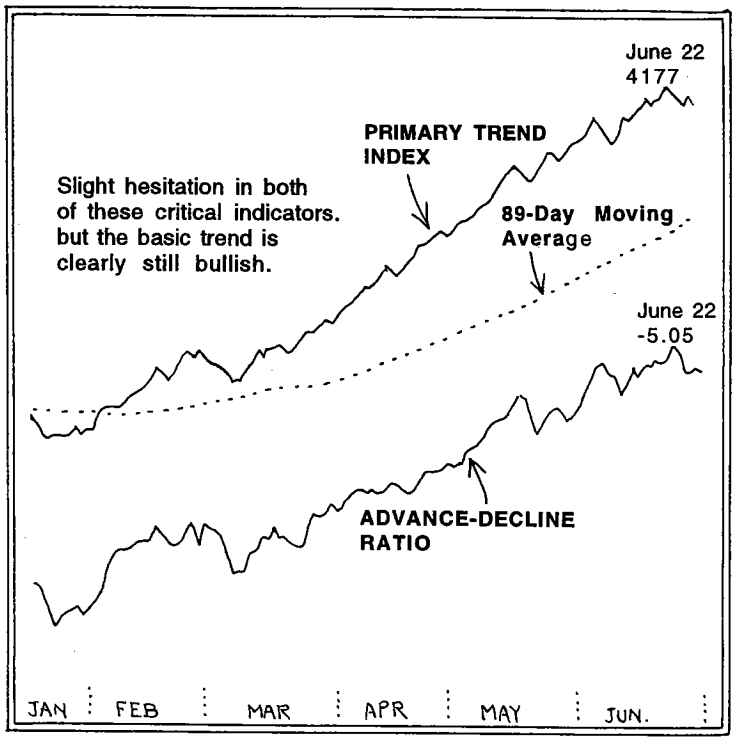
MARKET: At this point, it's almost ridiculous to talk about stock valuations. The stock market has already moved beyond all time-honored measurements of valuation. The Dow yield is now down to a micro **2.42%.** The Dow is selling at a never-before-seen **41** times dividends. Furthermore, **only 6%** of 350 monitored blue-chip stocks are now classified as undervalued (this is another record low). And finally, the Dow is selling at an outlandish **four times** book value. As a comparison, the yield on the Dow is now less than half the yield obtainable on "riskless" T-bills (well, riskless as long as you're not Japanese or European).

So let's set aside (at least for a while) talk of valuations -- after all, the market has totally set it aside. That means that we must concentrate more than ever on price action. Price action, market action -- they're the most important measurements we have going for us at this time.

Previously, I drew attention to the problem of the Transportation Average, since that Average did not want to climb over its April high of 1686.28. But on June 13 the Transports rallied above that level, action which gave us an intermediate "all clear" signal.

From another standpoint, this has got to be the most uncorrected market that I've ever seen (and I've been looking at markets for longer than I like to think about). For seven months (since last December) we haven't had so much as a 2% decline in the major averages on a closing basis. Seven months without backing off as much as 2% -- that's a performance that you can probably tell your grandchildren about.

I note that a lot of advisors and market-letter publishers are anguished, white-knuckled, even angry at this market. Reason: the market isn't doing what they want it to do, which is to go down (and preferably go down with a vengeance). But that's a ridiculous



attitude. The market couldn't care less about what you want or what I want. The market is a law unto itself, and you either go with the flow, or the flow washes over you.

My Primary Trend Index (PTI) hit a high of 4177 on June 22, then turned mildly down. Too early to know what this means, if anything. The same is true of the **advance-decline ratio,** which hit its high on the same day (see chart above).

As for the Averages, the **Dow** high was recorded on June 22 at 4589.64. The **Transport** high of 1760.10 was set on the same day, June 22. The **Utility Average** recorded its 1995 peak on June 5 at 209.86 (although the Utility Average hit its all-time high back in September 1993 at 256.46).

I've included a *Mansfield* weekly chart of the Averages. Despite the straight up rise of the Dow to record highs (up an extraordinary 16 weeks in a row), the Transports have still failed to confirm (the A-D ratio has also failed to confirm). Strange action, but let's face it, we've seen a lot of strange and unusual actions over the last year or so.

If trouble is in the wind, if the technical condition of the market starts to deteriorate in earnest, we will see it in the PTI. Once the majority of the PTI's components turns down, we will have early evidence that the market is running into trouble. How much trouble? It all depends on how persistent a downtrend develops in the PTI.

All of which brings up the question, what are the signals we should look for, the signals that might suggest that the rally is running into trouble? Normally, I would look for non-confirmations, lagging breadth, a subtle rise in daily new lows, breadth in the 30 Dow stocks not confirming the price, volume declining on rallies. However, the rise since December has been *so persistent and so uncorrected,* that I am preparing for anything, including -- a possible surprise.

What kind of a surprise? The surprise could be a deceptive and innocent looking falling away, an "unexpected" but very persistent market slide which starts without "the normal" warning signals.

NOTES: Followers of the Elliott Wave Theory believe we are at, or very near, the bitter end of a long-term rise, in that the Dow is in a fifth of a fifth of a fifth upward wave. When this final upmove is over, Elliott-eers believe, get ready for the deluge, the end of the greatest bull market in history.

Ned Davis put out a Special Report (June 12) which he headlined "(X-rated, for Mature Audiences Only!) The Case For Selling Too Soon." At the close of the report Ned writes, "In conclusion, this report has argued that the economy is **overburdened** with debt and high real interest rates, the stock market is **overexposed** due to four straight hikes in the discount rate, **overstocked** with potential sellers due to public over-belief seen through the mutual fund mania of the last four years, cash has been **overspent** with the lowest liquidity ratio for mutual funds in 27 years, stocks are **overvalued** relative to book values and dividends, **overextended** in price movement comparable to the bull markets which ended in 1929, 1937, 1966 or 1973 and technically **overbought**, the Dow and the S&P 500 are **overdeveloped** relative to underlying breadth and **overripe** for a big bear market."

Russell comment: Ned Davis is a top market analyst and very level-headed. Consequently, I did a double take when I read the above.

Clubs: You think the public is in the market only via mutual funds? Not so, there are also the investment clubs. Today there are a record 30,000 clubs with new ones forming at the rate of 100 a week. There are a total of 270,000 club members, and they hold an estimated $1.3 billion in club portfolios. Only 5% of the nation's 3,058 equity mutual funds have more assets.

Russell comments: The public is in the stock market to an extent that I've never seen before. The wealth effect "should" now be operating since it is estimated that the markets (stocks and bonds) over the last year have added a trillion dollars to market values. In view of this, I find it strange that there isn't more optimism about the economy. I blame this on the declining real take-home pay of the average American. With both spouses now working, families find it harder than ever to make ends meet.

Split: Then there is also the problem of the great divide -- the split between the educated, tech-oriented 20% of the population who are doing well -- and the 80% who do not possess so-called "third wave" abilities; these people are in debt, in various degrees of trouble, and are wondering what they have to do to get out of the basement.

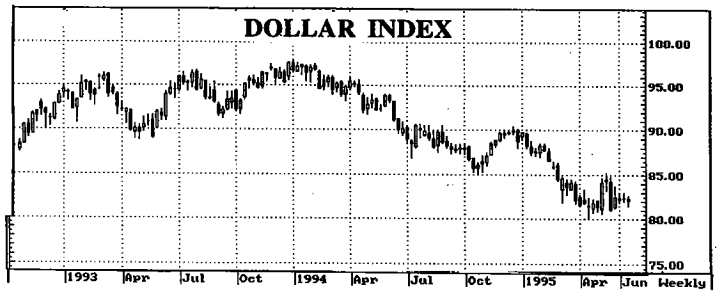
Another Split: In May "insiders" sold a record $1.8 billion worth of newly registered stock. In June insider sales have been running at the rate of $500 million a week. But mutual fund buyers are doing the opposite. In May $8.4 billion in new money came into the equity funds. The word is out -- if you want to die rich, put your money into good equity mutual funds and then hang on to those funds "come hell or high water." The general enthusiasm for common stocks at this point is about as high as I've ever seen, and the possibility of a primary bear market seems not even to be considered. Please check page 6, Late Notes, for final market comments.

DOLLAR: The dollar appears to have stabilized or even established an important base near its multi-year low around 80-82 on the Dollar Index (see chart on the next page).

Considering what's happened to the dollar, considering the billions of dollars that foreign dollar holders have lost holding dollar denominated securities, how does the dollar survive as the world's reserve currency?

First let's look at the facts. Nearly half of the world's trading is priced in dollars (this includes almost three-fourths of Japan's imports and half of its exports).

More than 40% of all foreign exchange transactions are in dollars. Furthermore, in nations such as Israel, Russia or Sudan, when



trouble brews (inflation, revolution, etc.), citizens rush to place their assets in dollars.

Of total global holdings of stocks, bonds, bank deposits, etc., 44% are denominated in dollars (these are 1993 statistics). This compares with 15% in D-marks and only 8% in yen.

Most of the worlds "big" commodities such as oil, copper, steel, pulp and wheat are routinely bought and sold in dollars.

Why does the world do such a large part of its business in dollars? Habit for one thing. But another factor is that the other currencies are just not big enough. The yen and the D-mark simply don't have enough supply and the Swiss franc (although great as a store of value) is a very small currency (in quantity).

The big worry among foreigners who use the dollar in trade is that it will not hold its value. Thus when a central bank is loaded with dollars, it is taking a huge gamble that the dollar will act as a store of value. So far, the banks and other dollar holders have lost the gamble. As Mr. A. L. Flood of the Canadian Imperial Bank of Commerce put it, "It's the long term that worries me. The United States should not be a debtor nation absorbing capital from the rest of the world."

A number of advisors believe that the dollar is now in the process of forming a major bottom. My opinion -- why guess? Referring to the chart, if the Dollar Index rallies above 85 I'll be impressed. If the Dollar Index then rallies above 86 (above the declining trendline), I'd say that there's a good chance that the dollar is in the process of an important reversal to the upside.

There was a little spurt in the dollar on June 28 when the "Clinton/Kantor" triumph on negotiations with Japan was announced. Actually, the so-called agreement was a vague something or other with no teeth in it. It was, however, a face-saver for both parties, and it allowed Clinton to call off the threatened sanctions against Japan (which he hastily did, when he finally learned the trade war would be as damaging to the US as it would be to Japan). The next day the dollar weakened again. Russell guess -- the dollar and the currencies are due for a trading-range rest as volatility comes down.

INVESTMENT POSITION: I'm going to stay with my question mark in the box. C'mon, it feels and smells like a bull market, but if the market was to turn down now, history would have a hard time classifying the action of the last 10 months.

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Maybe classification doesn't matter that much. It's obvious from dozens of letters received here that those who are bullish are in stocks and those who are bearish are on the sidelines. The bulls like the market action and the bears remain afraid of the micro-thin yields, the overvaluation and the non-confirmations.

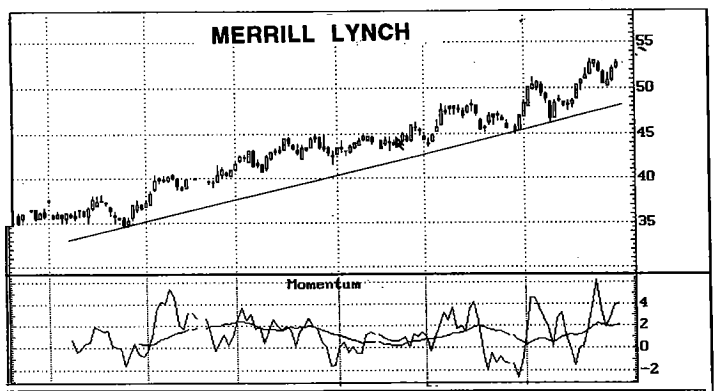
Since Dow Theory emphasizes values above all, it's very difficult for a true Dow Theorist to like this market. You can't win 'em all, and you can't be in 'em all, so true Dow Theorists would probably skip (that's miss) the whole rise from the December lows.

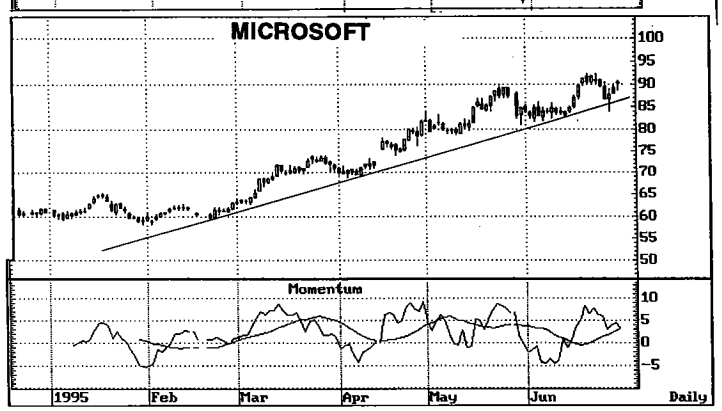
Personally, I've preferred to put my own money in my new venture (which you're free to inquire about or even join), but I have to have an overall plan or guide. One of the rules of my plan is that I don't put my money in overvalued stocks, even though (as so many experts are now saying) the stock market is a guaranteed royal road to riches. Most of these experts, I might add, have never lived through a primary bear market.

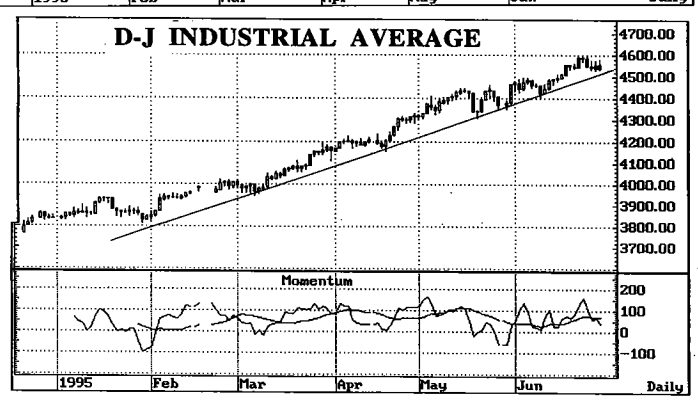
CHARTS: Here are a few daily charts that I want to bring to the attention of subscribers. The first is Merrill Lynch, which I consider a good market bellwether (brokerage stocks often move prior to the general market). The critical rising trendline on MER comes in at 49. Watch to see if MER holds.

The second chart is glamour-stock Microsoft, the company headed by super-glamour guy Bill Gates. The support for MSFT comes in at just above 86. Watch it. Note that momentum on both stocks is coming down (as it is on a great many stocks at this point).

The third chart shows the Dow, and here the support comes in at around 4500. Again, note the momentum line breaking below its moving average. Before a correction or bear market can start, you have to get that first trendline break and that first swoon in momentum. Stay tuned.







NOTES & QUOTES: Spent last Friday, Saturday and Sunday in NYC. Took America West both ways, wouldn't use them again (both flights delayed, plus other screw-ups). City seemed more crowded than ever, especially Greenwich Village (where I attended

NYU back in the '40s). Saw the new (terrific) dinosaur exhibit at the Nat. History Museum -- place was mobbed, long lines, droves of Japanese with their kids. Visited a number of old friends in the finance area. The divisions between rich and poor in Gotham is dramatic. I've renamed NYC the "Home of the Homeless." I asked one little black lady (she was broke, pregnant and from Maryland) why she lived in NYC. After reciting a poem, she confided that living in NYC is easy compared with other places. She said she spent some time in Texas, "where it is tough to be homeless" . . . Had dinner at famed Le Cirque the first night (good but not as good as it used to be) and dined second night at Daniel (probably the finest restaurant in the US -- dinner was beyond great). On way back to the airport I said to Faye, "This taxi driver is crazy, he drives like he's got no reflexes." Five minutes later this zany crashed the taxi into another car (the road was packed and passing cars were screaming curses at the confused taxi driver). Wife Faye was thrown against the taxi seat and received a fat and bloody lip. Didn't they used to call it "Fun City"?

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Latest 12-month actual additions to the US national debt -- $298 billion. That's just a bit less than ONE BILLION DOLLARS A DAY! Talk, talk, talk. Neither the Dems nor the Republican deficit-eliminating plans assume any major slowdown or recession between now and 2005. This little omission makes me very skeptical regarding eliminating the deficit any time soon. And if there's a recession, the deficit will soar.

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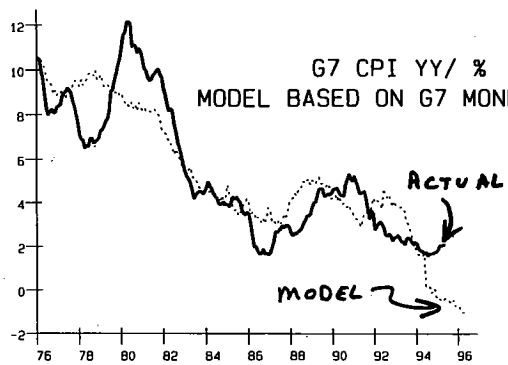
The leading indicators have declined for three months in a row (February, March, April) with May probably down as well. It's a signal that, in the past, has tended to forecast recessions. What's surprising is that the stock market has been moving up in the face of the declining lead indicators. Could a recession be coming with the stock market not ready for it? Not likely. The only time I know of when the economy turned down before the stock market was in 1929 when the economy clearly turned down in August of that year, one month before the stock market topped out.

In the meantime, Ed Hyman (*ISI*) has been noting the world economic slowdown, not only in many of the smaller nations but in the G-7 nations. Hyman also points to "weak global real estate," and in his latest report he asks, "Is deflation possible?" He asks this based on collapsing G-7 rate of money growth plus G-7's sinking consumer price index rate (as seen on the ISI chart below).



In the US the decline in growth rate of MZM also suggests an important slowdown or recession ahead (of all the money supply measurements, MZM correlates best with the trend of the economy but tends to move two years ahead of the economy --MZM = MI + money market funds + savings accounts).

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Fed Chairman Greenspan, perhaps largely influenced by the strong stock market, gives off "vibes" that he'd prefer not to lower interest rates, even in the face of negative economic news. Of course, Greenspan's attitude could change in a hurry if indications of a real recession emerge. Greenspan wants to be re-elected as Fed Chairman, which means that he cannot "allow" a recession to unfold. A recession in '95 or '96 would almost guarantee that Greenspan would be heading back to the private sector, and that Bill Clinton would be truckin' back to Arkansas.

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With the help of the weak dollar, US exports have been looking good. The problem, however, is that the global economy is slowing down. Of the US's five biggest export nations, three are at or near recession; these are Mexico, Canada and Japan while growth in Britain and Germany is sputtering.

But bullishness remains the sentiment of the day, as notes this headline from the July 3 issue of *Business Week:*

BY JAMES C. COOPER & KATHLEEN MADIGAN

THE ECONOMIC SLOWDOWN: THE WORST MAY ALREADY BE OVER

U.S. ECONOMY "Will you, or won't you?" That was the key question put to Alan Greenspan by Martin S. Davis at the June 20 broad, deep cuts by the auto industry are making it look worse than it really is. Greenspan told the Economic Club that the pattern

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President Bill has decided (to the anguish and fury of his fellow Democrats) that the way to hang on to the Presidency is to compromise with the Republicans and try to avoid any and all vetoes. Latest news is that Clinton is coming out with a series of early ads . . . You have to wonder what this obsession with getting re-elected is? Clinton is widely held to be both inept and indecisive, he's widely disliked, and many Dems hope that he'll somehow go away. Then why, why the race for a second term? Russell answer: running for office is all Clinton knows. He's been running for office ever since he got out of college. It's as if getting elected is tantamount to being loved. Bill, give us a break, retire and tell yourself that you're loved. It will be easier on you and us.

Meanwhile, members of both parties wait breathlessly to see what Ross Perot and Colin Powell might be up to. Latest rumor -- Perot will run against Clinton on a Dem ticket! As for Powell, nobody knows whether he's a potential Democrat or Republican. I just don't get the feeling that Powell is very political. Meanwhile, Malcolm S. (Steve) Forbes, Jr. may be a candidate for president (he's editor of *Forbes* magazine). Personally, I'd vote for Forbes. His editorials are, I think, among the best, the sanest and the wisest in the business.

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Words to live by: "Things may come to those who wait, but only the things left by those who hustle." -- Abraham Lincoln.

"When a man sits with a pretty girl for an hour, it seems like a minute. But let him sit on a hot stove for a minute -- and it's longer than any hour. That's relativity." -- Albert Einstein.

* *

It had to happen: ABC and NBC have had it with baseball. Said NBC sports president, Dick Ebersol, *"Neither of us (ABC or NBC) will be involved in the bidding next year. I'll tell you how bad it got. This is the first time in history that two competing organizations, the country's two leading networks, have reached the same conclusion -- get out of the sport."* **Russell comment:** With baseball attendance at games down 20 to 25% and no bidding next year from NBC or ABC, it will be up to bids from FOX or CBS to support the sport. My prediction -- average baseball salary is currently just over $1 million -- baseball salaries will be coming down.

ABC, NBC To Drop Baseball

NEW YORK (AP) — Citing a "trail of broken promises," ABC and NBC said they are through with major league baseball in this century after this season, and Fox or CBS can have it next year.

"I can't imagine being involved in baseball the rest of this century," NBC Sports president Dick Ebersol said as he and ABC Sports president Dennis Swanson jointly announced the move.

* *

Baseball is in the dog house. Basketball season is over. Boxing can look forward to Mike Tyson fighting an unknown (Pete McNeeley) in August. Track has never had a large following (although it should, because track is a great sport). So what have sports fans got to look forward to? Ah yes, football! So here are the latest Vegas odds on the team to win the next Super Bowl (to be played January 28, '96 at Tempe, AZ): San Francisco -- 2 to 1; Dallas -- 7 to 2; Miami -- 7 to 1; New England -- 8 to 1; Pittsburgh --10 to 1; Minnesota -- 12 to 1; San Diego, Buffalo and Giants -- all 15 to 1. Cleveland -- 18 to 1. LA Raiders and Kansas City -- 20

to 1. Russell's long-shot bet -- New England (at least, to get to the SB).

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The *Wall Street Journal* is angry at both Sony and Time Warner. Sony gets a *WSJ* thumbs down for producing Michael Jackson's new album with its anti-Semitic wordings. And the *Journal* is angry with Time Warner for featuring its scatological and violent gangsta rap. "Our chief reaction," growls the *Journal,* "is that it's pathetic to see two once-proud companies sink so low." **Russell comment:** I don't think Michael Jackson is anti-Semitic, just a bit dopey. As for gangsta rap, it's so boring and hard to listen to that I don't see how they sell it, but they do. Personally, I could live without it, but obviously Time Warner needs the money (they've got a staggering $18.5 billion of debt, you know).

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What's the best business in the world? If you judge it by delivery time, it must be little Seecamp of Connecticut. They make the much-desired Seecamp .32 caliber semi-automatic pistol. This is the tiny but powerful king of pocket pistols, the back-up that every gun fancier would love to own. The little hand-made pistol costs over $425. I ordered one in November, 1993, and they told me at the time that delivery would be 18 months. More recently (I still haven't received mine), Seecamp told me delivery had been extended to 24 months. What do they say -- "build a better mousetrap."

* *

The latest issues of *Time* and *Esquire* publish major articles on the militias. What's the story on the militias? Behind almost every militia is their fear of conspiracy, their fear that the nation is going to the dogs (or should I say the conspirators). The conspirators -- who are they? According to militia lore the conspirators can be the Council of Foreign Relations, the Zionists (code name for Jews), international bankers, the World Trade Organization, the "government," the IMF, the Bank of International Settlements, the World Bank, or just "they."

What's behind the conspiracy fears? I obviously don't know all of it, but I do know that there are a lot of real questions that tend to fire up the fears and the conspiracy theories. I list a few of them as follows: (1) The income tax, which, by some accounts, is unconstitutional, since again, by some accounts, the income tax amendment (16th Amendment) was never legally ratified by the required number of states. (2) The Federal Reserve, which indeed does subvert the Constitution. (3) Our paper "legal tender" money, which goes against the explicit directions of the Constitution. (4) Then we have all the unexplained happenings such as the Kennedy assassination and the Vince Foster "suicide." (5) The crazy use of government power exemplified by the Waco and the Weaver shootings. (6) The pain produced by decades of declining purchasing power of the dollar. (7) The outrage generated by a government that runs up $5 trillion in debt, thereby burdening our children and grandchildren.

Conspiracy? World takeover? The Bilderbergers? Jewish plot? Power-crazy bankers? I don't see it. I do think most of it has to do with actual subverting of the US Constitution plus general stupidity, ignorance or illegal actions on the part of our politicians. And that's all I have to say today about the militias and their fears.

To me, the worst of the entire picture is what the politicians have done with our money. To see the paper dollar declared as "legal tender" by the government and then to see the purchasing power of the dollar drop 90% in my own lifetime is both shocking and unconscionable. Destroy a nation's money and purchasing power and you undermine its morality. A person works a lifetime and ends up with no purchasing power. It may not be a conspiracy, but it feels like one to the average American. To that, add a national debt of $5 trillion, and no wonder that there are a lot of Americans who are "mad as hell" and really don't want to take it any more.

Late note: Henry C. Lee, noted forensic scientist, said he has been asked by Whitewater prosecutors to review the July, 1993 death of White House Deputy Counsel Vincent Foster, Jr. This could be an explosive story (if it ever emerges).

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This from the latest *Harper's Bazaar* quoting super-model Cindy Crawford, "On Sunday I had to do a commercial for Blockbuster, and the last place I wanted to be on Sunday was doing this commercial. But at the end of the night, I came home and it was like, 'Oh, my God, I just realized what I'm good at -- making money.' And it was a real revelation, recognizing that that's a talent and not something to be ashamed of. It's amusing to me. I find it amusing to make money. Especially when you're really tired and you don't want to work so you ask for a ridiculous amount of money, and they say OK. I felt tickled by it." **Russell comment:** C'mon Cindy, there's nothing wrong with making money, some of my best friends spend a lot of time trying to make money.

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Killers: This may come as a surprise but the biggest killers on earth are parasites. According to the World Health Organization, parasitic and infectious diseases killed 16.4 million people in 1993. Heart and circulatory diseases killed 9.6 million, unknown causes 8.1 million, cancer 6 million, accidents and violence 3.9 million, infant deaths 3.1 million, lung diseases 2.8 million. The Health Org. states that 1.5 billion humans were infected with intestinal parasites in 1994 and that 500 million school-age children are currently being ravaged by infectious or parasitic diseases.

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Speaking of disease, 300 million Chinese (bigger than the US population) now smoke cigarettes. Smoking is ingrained in the Chinese way of life. The Chinese State Tobacco Monopoly Admin. is the single biggest earner for the Chinese central government and in '94 it contributed $6.6 billion in profits in taxes, up one-third from '93. The happy news -- Westerners are quitting smoking at the rate of 2 to 3% a year.

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The Chicago Merc. is planning to offer futures and options on a number of additional currencies including Brazil's real, the Mexican peso, the Italian lira and the Spanish peseta. The biggie lies somewhere in the future -- the Chinese yuan.

* *

Life in San Diego: Sandra, my wife Faye's legal secretary, was in a baaaad mood. Why? Her dog (a Lab) trotted out of his doggie door one night last week and promptly got sprayed in the face by an angry skunk. The dog freaked out, rushed back in the house, jumped on sleeping Sandy's bed. The frantic dog rubbed against everything in sight from the pillows to the walls to the carpets to Sandy. Conclusion: the dog was placed in the shower and scrubbed (to no avail), blankets and comforter were thrown out, cleaners and the insurance company were called. For the time being, Fido is sleeping in the yard.

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Dagwood has been screwing up for years, but this time he's really done it. But you have to love the poor guy.

BLONDIE By Dean Young and Stan Drake

HOW COULD HE DO IT?! HOW?! HOW?!
WE'LL LOSE THOUSANDS! HUNDREDS OF THOUSANDS!!
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THAT IMBECILE! MY COMPANY IS RUINED!!
BAM BAM BAM
IT MIGHT BE TOO LATE FOR AN APOLOGY
6-27
YOUNG DRAKE

* *

Orange Country voters voted on a half-cent increase in the local sales tax to bail out the County. They voted, "No." The big question now -- will the County's bonds go belly up? If that happens bond holders could face the biggest default (over $1 billion) in muni bond history. Actually, the county will somehow probably avoid bankruptcy (maybe by borrowing over $1 billion). But the June 24 London Economist writes, "The truth has finally dawned on fund managers across America: the Golden State is a risky investment . . . If the county defaults next month, shock-waves will travel across the whole of California -- and perhaps across the rest of the municipal market."

* *

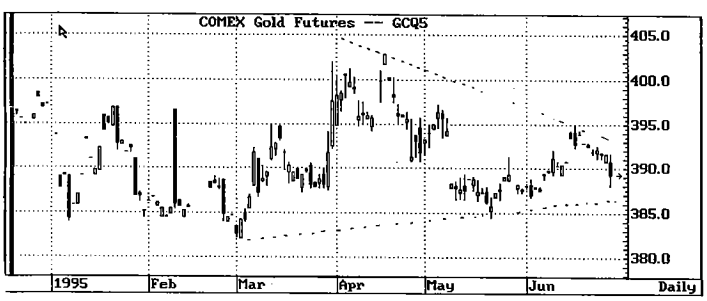
Do all "organizations" eventually become atrophied and inefficient if not corrupt? That seem to be what's happened to the UN (at one time I even had high hopes for this outfit). But alas, note this headline from the *International Herald Tribune:* "The UN at 50, A Monument to Inefficiency and Waste." The paper quotes one UN official as saying that the UN has "appalling inefficiencies and backbiting and corruption," tenacious cancers that have debilitated the world organization, demoralized its own staff, and severely undercut its support in the United States and elsewhere." The paper adds that "money is lavished on conferences that produce little but talk. Millions of words are printed in turgid reports on subjects as arcane as the 'colonial' status of American Samoa or Britain's Pitcairn Island (pop. 65)." States Australian representative, Richard Butler, "This bureaucracy was designed in hell." Notes the *Trib,* "The UN weaknesses can also be attributed to an unwieldy bureaucracy preoccupied with its own welfare. The UN is so short of financial auditors that its departments and agencies are audited only every six years on average. **Russell comment:** As it now stands, I don't believe the UN is worth anything, at least not to the US. Reform it or close it down.

* *

States the *Durell Journal of Money and Banking,* "Most market-timers are out of the market now, rooting for a crash so that they can return to prominence and regain their lost credibility." **Russell comment:** If this is true, it's a sad commentary on the advisory industry. Any time in this business you find yourself wishing or hoping, it means you're in trouble. The market is always right, and when you find yourself hoping it means that you haven't been ACTING.

GOLD: The gold action is finally clear -- gold is doing whatever it has to -- to drive trend followers nuts. I've included a daily chart of the August gold futures contract. In April we saw a single day with gold over 400. From there gold took a dive down to a May low of 385. From the May low gold rallies to 395. Then last week, on June 28, the metal dropped below 390.

Drawing the trendlines, gold has formed a triangle with the critical upside point at 395 and the critical downside point at 385. Note that gold momentum (bottom of chart) has broken down.



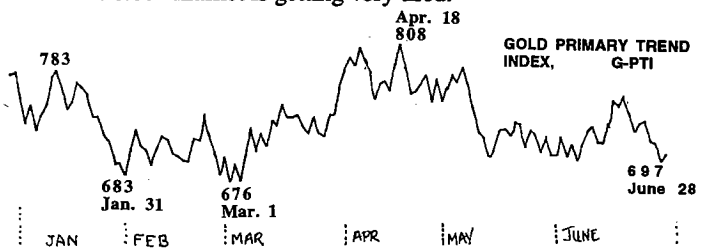
I've thought a lot about why gold can't seem to get going on the upside -- one possibility is that gold is dealing with the potential of world deflation (remember, the growth rate of the G-7 money supply is now near zero, and that's deflationary). Furthermore, most of the major world economies are either sluggish, near recession or in recession.

If a real deflation takes place, I would think that the world debt situation could set off a crisis. If that occurred, the viability of a lot of currencies would come into question. That could easily set off a panic to own gold rather than questionable paper currencies.

Turning to my Gold-Primary Trend Index (G-PTI) again we see the same picture of indecision. Just when the G-PTI appears ready to break out on the upside, it swoons. Then just when gold appears ready to break out on the downside, it rallies.

How about a central bank "conspiracy" to hold the price of gold down? Writes friend Mark Skousen, "My European sources tell me that central banks are determined to keep gold under 400 as long as possible. Each government is taking a turn --the Dutch sold in 1992, the Russians in '93, the Belgians this year. France and Italy may also be selling. But dumping gold on the market can last only so long. When it abates, watch out! The price of gold could sky-rocket."

To me at this point here's what you do -- you just hold gold coins (plus maybe Placer Dome and Barrick Gold and Newmont Gold) and you exercise patience. Also, I suspect that when the stock market tops out gold is going to act inversely, in other words, when the stock market turns down gold is going to rise. Finally, I think the stock market is getting very tired.



LATE NOTES & THOUGHTS: The prevailing opinion seems to be that there won't be any recession or, for that matter, even a marked slowdown in the economy. Consequently, this means there won't be any rate cut by the Fed. Bonds were hit hard (down two full points) on Thursday (June 29), and the stock market backed off, but not impressively. At this point it's very difficult to tell whether this is merely the "pause that refreshes" in the stock market, or rather something less healthy is going on. I'm keeping my eye on the Transports, which once again are lagging. One thing is clear -- buyers rush in after any decline in the stock market. Buyers even rush in on intra-day declines (for instance, on a typical "weak" day the Dow will be down 15 points in the first hour, but it will spend the rest of the trading session recovering). All suggesting unabated enthusiasm for common stocks.

Note (page 2) that my PTI is still very reluctant to go down. Also, daily new lows remain at extremely low levels. One of the first signs of trouble would be a persistent expansion in the number of daily new lows.

Denial is a fascinating subject. I used to smoke, but in 1970 I stopped that damnable habit (of course, I had "tried" to stop smoking for three previous years). Any time you find yourself "trying" to do something, forget it, you're kidding yourself. "Try" to stop eating too much, "try" to stop drinking that third Martini, "try" to stop gambling. You either do it or you don't, trying is just a weak excuse for indecision. When you're ready, you don't try -- you DO IT.

Nobody hates smoking as much as an ex-smoker. I tell friends who are smoking that they are "in denial." They retort, "Denial, what do you mean?" I tell them the denial means that they are telling themselves, "Maybe the other smokers will get cancer, but it won't happen to me." Buddy, that's denial. It's the same thing every man going to war tells himself. "The other guy may get killed, my best friend may get his head blown off, but it's not going to happen to me." Denial, denial, denial, half the world lives by it.

Next Mailing July 19, 1995